

J.E. FORTENBERRY, III, PC

Certified Public Accountant

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January 11, 2006

Financial Audit Management Report

Tommye D. Favre, Executive Director
Mississippi Department of Employment Security
P.O. Box 1699
Jackson, Mississippi 39215-1699

Dear Mrs. Favre:

J. E. Fortenberry, III, PC has completed its audit of selected accounts included on the financial statements of the Mississippi Department of Employment Security for the year ended June 30, 2005. These financial statements are consolidated into the State of Mississippi's Comprehensive Annual Financial Report.

The J.E. Fortenberry, III, PC staff members participating in this engagement included Jeff Adcock, manager; Rebecca Jefferis, Senior Auditor; Monique Robicheaux, Staff Auditor and Jack Fortenberry, Partner.

These accounts included:

Fund 3671	NonMajor Governmental	12400	Due from Federal Government
Fund 3671	NonMajor Governmental	22100	Deferred Federal Revenue
Fund 3671	NonMajor Governmental	44110	Employment Security Programs
Fund 3671	NonMajor Governmental	60000	Salaries and Wages
Fund 3671	NonMajor Governmental	61000	Contractual Services
Fund 8191	Major Governmental	10300	Amount on Deposit w/ U.S. Treasury
Fund 8191	Major Governmental	11130	Contributions Receivable
Fund 8191	Major Governmental	11400	Taxes Receivable
Fund 8191	Major Governmental	11500	Allowance for Uncollectible Tax Liens
Fund 8191	Major Governmental	40590	Unemployment Insurance Premiums
Fund 8191	Major Governmental	43390	Other Interest
Fund 8191	Major Governmental	67000	Subsidies, Loans and Grants

The fieldwork for audit procedures and tests was completed on December 16, 2005. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing my audit of the above listed selected accounts included in the financial statements, I considered the Mississippi Department of Employment Security's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on these accounts and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my opinion, could adversely affect the agency's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. This matter is noted under the heading Reportable Conditions.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all reportable conditions and, accordingly, would not also disclose all reportable conditions that are also considered to be material weaknesses. However I believe the reportable conditions described in the findings below are material weaknesses:

Compliance and Other Matters

As part of obtaining reasonable assurance about whether these selected accounts included on the financial statements of the Mississippi Department of Employment Security are free of material misstatement, I performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, according, I do not express such an opinion. I am pleased to report the results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, and members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Employment Security throughout the audit. If you have any questions or need more information, please feel free to call.

REPORTABLE CONDITIONS

Budgetary Controls Are Not Fully Utilized

FINDING:

Although the Department utilizes a budget, the budgetary encumbrance system process does not include certain costs (personnel actions and purchases made outside the Procurement Department) until the transaction has taken place and the funds obligated. Unless the budget encumbrance process includes these costs prior to the transaction taking place there can be no complete assurance that the overall budget will maintain its integrity.

RECOMMENDATION:

I recommend that the budgetary process be reviewed and updated in order to encumber all costs.

Bank Reconciliation Not Performed

FINDING:

The Fund 8191 Unemployment Insurance bank statements were not reconciled to the general ledger cash balance. Without reconciliations of the general ledger cash accounts to the bank statements differences could exist that would not be detected in a timely manner.

RECOMMENDATION:

I recommend that all bank accounts be reconciled within a timely manner.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. E. Fortenberry, III, PC', written over a horizontal line.

J. E. Fortenberry, III, PC
Certified Public Accountant